

HOUSE BILL REPORT

2SSB 5916

As Reported by House Committee On:
Finance

Title: An act relating to tax incentives for clean alternative fuel vehicles.

Brief Description: Exempting clean alternative fuel vehicles from sales and use tax.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Schmidt, Esser, Finkbeiner and Benson).

Brief History:

Committee Activity:

Finance: 4/21/05 [DP].

Brief Summary of Second Substitute Bill

- Provides a two-year exemption from sales and use taxes on purchases of passenger cars and trucks that run on natural gas, propane, electricity, or hydrogen, or on hybrid technology, beginning January 1, 2009.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Rick Peterson (786-7150).

Background:

Retail sales and use tax. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Currently, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on taxable items and services used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All items or services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Tax is due at the time of sale or first use within the state.

Alternative Fuel Vehicles. Alternate fuel vehicles operate with fuels other than petroleum-based gasoline and diesel. According to the United States Department of Energy, models currently available for consumers to purchase include cars that run on natural gas, liquefied petroleum gas or propane, electricity, and ethanol or E85 (a mixture of 85 percent ethanol and 15 percent gasoline). Each of these alternative fuels results in a reduction of tailpipe emissions. The U.S. Department of Energy's Alternative Fuel Data Center (AFDC) reports that six automobile manufacturers offer for sale in the United States 26 vehicle models in model year 2005 that are capable of running on alternative fuels. These models include compact cars, sedans, vans, sports utility vehicles, and pickup trucks.

Another categorization of fuel efficient vehicles that the U.S. Department of Energy uses is advanced technology vehicles (ATVs). These vehicles use technology other than a straight internal combustion engine. Most ATVs employ some type of battery electric technology. Hybrid electric vehicles (HEVs) are one type of ATV, and typically combine the internal combustion engine of a conventional vehicle with the battery and electric motor of an electric vehicle. The AFDC indicates that there are seven HEVs in model year 2005 offered for sale.

California Emissions Standards. Under the federal Clean Air Act, the states have the option to implement either federal motor vehicle emission standards or California motor vehicle emissions standards for passenger cars, light duty trucks and medium duty passenger vehicles. The Washington State Clean Air Act amendments passed in 1991 require engine manufacturers to conform with the exhaust emission standards of the federal Environmental Protection Agency (EPA). They also prohibit the Department of Ecology (DOE) from adopting the California vehicle emissions standards unless authorized by the Legislature.

In the 2005 session, legislation was introduced that would require the Washington DOE to adopt the California vehicle emission standards. The legislation would apply the standards to vehicles beginning with model year no later than 2010.

Summary of Bill:

Two-year tax exemptions are created for new motor vehicles that use certain alternative fuels or hybrid technology, beginning January 1, 2009. The sale or use of a new passenger car, light duty truck, or medium duty passenger vehicle is exempt if:

1. The vehicle is exclusively powered by natural gas, propane, hydrogen, or electricity, and the vehicle meets California motor vehicle emission standards effective January 1, 2005, as adopted by the DOE; or
2. The vehicle utilizes hybrid technology and has a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least forty miles per gallon.

The bill takes effect only if the Legislature adopts legislation requiring the Washington DOE to adopt the California motor vehicle emissions standards.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2009. However, the bill is null and void unless SB 5397 or HB 1397, relating to vehicle emission standards is enacted.

Testimony For: The Puget Sound Air Agency supports this proposal. This was not request legislation on our part; rather, it was a response by Senator Schmidt to the auto dealer industry with respect to the legislation that will enact California emissions standards. The dealers claim that they will have difficulty in selling cars during the first three model years of implementation of the California standards. This measure would provide some relief within a two-year window, which would cover portions of the first three model years.

(With concerns) The state petroleum industry is investing millions in industry upgrades required for clean diesel. We would prefer the adoption of performance standards rather than a presumption that any particular fuel would result in superior environmental outcomes, and outcomes are what are desired here.

Testimony Against: None.

Persons Testifying: (In support) Mike Ryherd, Puget Sound Clean Air Agency.

(With concerns) Greg Hanon, Western States Petroleum Association.

Persons Signed In To Testify But Not Testifying: None.